

0425 - State Insurance Department

Final Progress Report for the reporting period July 1, 2003 - June 30, 2004

Section I. Agency Update and Assessment

1. Emerging Issues at the Federal (National) or State level affecting the agency.

The national issue with the greatest potential affect on the Insurance Department is the increasing industry interest in and increasing Congressional focus on the creation of a Federal insurance regulator. The advent of a Federal insurance regulator would result in reduced state influence over the essential service this industry provides to the citizens of our state, and it would almost certainly result in substantial loss of state government revenue from this multi-billion dollar Arkansas industry. The Insurance Department is actively cooperating with the insurance departments of all other states in working to educate industry and the citizenry and the Federal Government as to the disadvantages this would bring to all involved. This is primarily achieved through the National Association of Insurance Commissioners (NAIC) where Arkansas has been a leader in insurance regulatory reform and in the improvement of regulatory services through technology.

As a law enforcement agency charged with enforcing the criminal fraud provisions of the Arkansas Insurance Code, the Insurance Department is actively involved in supporting certain Homeland Defense initiatives of the Federal Government. Of particular importance during FY04 has been cooperation in anti-money-laundering activities.

The Insurance Department is constantly working with other individual state insurance departments to provide better regulatory service to consumers and industry doing business in Arkansas. During FY04 Arkansas began monitoring an experiment in state regulatory deference being formulated by California, Florida, and Texas. If this effort proves to be as beneficial to consumers and industry as it promises to be, Arkansas will join the program.

2. Status of any new initiatives funded from General Revenue or General Improvement funds in the 2003 Legislative Sessions and other changes made through General Legislation.

The Insurance Department is funded by Special Revenue.

3. Discuss significant factors internal and external to the agency affecting agency performance.

Statutory reporting requirements for some types of industry organizations affect the results of some performance measures in Program 2, Goal 1, Objective 1. Case loads of local prosecutors and courts affect the results of some performance measures in Program 3, Goal 1, Objective 1. Increasing prescription drug prices and other external factors threaten to impact future performance measure results in Program 4.

4. Provide comments on the usefulness and reliability of performance measures.

The Insurance Department made every effort during the formulation of its 5-year Plan to formalize those measures that have historically been the informal measures used to assess performance. Added to these were measures of general interest (such as number of licensed agents) which are not necessarily seen by the Department as measures of its performance, but which are clear indicators of Department workload and value to consumers and industry. In the 2005-2009 plan these items have generally been moved to the annual reporting sections following the performance measures of each Department Program. Additionally, in the 2005 plan measures and/or target values have been revised to reflect subtleties encountered in the process, such as complications arising from attempting to report fiscal year values for calendar year programs.

5. Discuss significant uses of line item flexibility in this report period (agencies operating under Performance-Based Appropriations only).

Section II. Performance Indicators**Program 1: Administration and Regulatory Support**

Goal 1: Effectively administer and support the regulatory activities of the other Programs.

Objective 1: Provide Department resources (management, personnel, systems and material) necessary to continue to improve consumer protection by insurance industry regulation in Arkansas.

Measure

<u>Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	% of agency performance measures met.	76%	93%	
2	% of agency staff in Administration and support services as compared to total agency positions	30%	29%	
3	% of agency budget in Administration and support services as compared to total agency budget.	47%	35%	Act 78 of 2003 2SS, Department received additional duties and appropriation.
4	Number of prior year audit findings repeated in subsequent audit.	0	0	
5	Agency information technology budget as a percent of total agency budget	4.7%	2.0%	Act 78 of 2003 2SS, Department received additional duties and appropriation.
6	Implement all Commissioner approved National Association of Insurance Commissioners technology initiatives.	100%	100%	
7	Number of proprietary information systems maintained by agency staff or maintained through contractual services.	10	6	Reference Comment 1
8	% Gramm-Leach-Bliley (GLB) Financial Services Modernization Act-required changes in state regulation of insurance substantially complied with.	100%	100%	

Comments on performance matters related to Objective 1:

1. Internally developed systems replaced use of 1 Fraud case management system and 1 Risk property tracking system. No requirement developed for new proprietary systems.

Program 2: Insurance Regulation & Consumer Protection Program

Goal 1: Preserve State Regulation of Insurance through cooperation with the other States, and by conducting regulatory operations in such a manner as to provide the best insurance regulatory services possible.

Objective 1: Protect insurance consumers.

<u>Measure Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Percentage of resident agents meeting continuing education requirements	97%	99.46%	
2	Number resident and non-resident agents with active licenses	43,200	47,036	
3	Average processing time for agent licenses (in days)	9.5	9.41	
4	Maintain full accreditation by annually achieving ever improving financial regulation standards.	100%	100%	
5	% of company applications for admission which were processed for initial response within 120 days.	75%	89.5%	AID implemented the use of electronic filing of applications during this time period.
6	% of domestic insurance companies required to be examined by Arkansas Statute, performed	100%	100%	Based on Calendar Year due to AR Statue & Accreditation Guidelines.
7	Examinations performed as a % of domestic insurance companies licensed in Arkansas.	20%	26.4%	Based on Calendar Year due to AR Statue & Accreditation Guidelines.
8	% of domestic insurance companies on which financial analysis reviews were performed	100%	100%	

Comments on performance matters related to Objective 1:

Program 2: Insurance Regulation & Consumer Protection Program

Goal 1: Preserve State Regulation of Insurance through cooperation with the other States, and by conducting regulatory operations in such a manner as to provide the best insurance regulatory services possible.

Objective 2: Inform and assist insurance consumers.

<u>Measure Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Number of consumer monetary awards resulting from investigation of complaints	\$1,980,000	\$3,727,216	Had several big recoveries, really can not predict this
2	Number of consumer complaints filed	4,400	2,936	Many inquiries were resolved without formal complaints being filed.
3	% of consumer complaints closed	91%	99%	2,977 total closed
4	Number consumer calls received/handled	28,500	40,006	Can not predict, also had an aggressive public awareness program.
5	% of Governor's Dislocated Worker Workshops participated in	96%	96%	54 total workshops- we did 52. Missed 2 in 1-04 snow.

Comments on performance matters related to Objective 2:

Program 2: Insurance Regulation & Consumer Protection Program

Goal 1: Preserve State Regulation of Insurance through cooperation with the other States, and by conducting regulatory operations in such a manner as to provide the best insurance regulatory services possible.

Objective 3: Minimize State government insurance costs and losses

<u>Measure Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Number of on site inspections and analysis of State owned facilities in order to develop enhanced real property appraisals.	1500	1665	
2	% of insured State structures inspected to promote increased safety awareness and operating conditions, and to facilitate loss control and loss prevention.	50%	55%	
3	Number of Fidelity Bond Trust Fund contacts made.	1400	2467	Contacts were not tracked in the past; the target was a best estimate.
4	Number of updates to Insurance Risk Assessment System (IRAS) property databases.	1600	3734	Updates were not tracked in the past; the target was a best estimate.

Comments on performance matters related to Objective 3:

Program 3: Insurance Fraud Investigation

Goal 1: To fully and equitably enforce the criminal fraud provisions of the Arkansas Insurance Code and the Workers' Compensation Law.

Objective 1: Investigate and prosecute fraudulent insurance code and Workers' Compensation Act violations.

Measure Number	Performance Indicators	Annual Target	FY04 Actual	Comments
1	Review and assign referrals to an investigator within 48 hours of receipt.	85%	95%	
2	Investigation completed and closed or prosecution referred to local prosecutor prior to the expiration of the statute of limitation	100%	100%	Reference Comment 1
3	Prosecuting Attorney accept 80% of referred cases.	95%	55%	Reference Comment 2
4	90% conviction rate on arraigned cases.	95%	90%	Reference Comment 3

Comments on performance matters related to Objective 1:

1. - 4 case files were closed due to the Statute of Limitations. Review of these case files indicate that the statute had run out prior to the file being referred to the Division. The Division met its Annual Target of 100% with an FY 04 Actual of 100%. 2. - 33 cases were referred to the local prosecutors, 18 cases were filed by the local prosecutors, 15 cases are awaiting filing decision by the local prosecutors. 3. - 17 cases resulted in convictions of the suspect/subject, 1 case was Nolle Pross's, 1 case was acquitted. * The cases reflected in these statistics are from both within and without the stated time. This is due to the ultimate disposition being under the control of local prosecutors and circuit court dockets. The appropriate time frame is flexible up to a maximum of three years, the applicable criminal statute of limitation.

Program 4: Worker's Compensation for State Employees

Goal 1: Efficiently administer the public employee Worker's Compensation Program and minimize state employee injuries and claims costs.

Objective 1: To efficiently process claims and make an eligibility decision on 75% on new lost time claims within 15 days of receipt of the claim in Public Employees Claims Division

Measure				
<u>Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Percent of new claims with eligibility decisions within 15 days.	72%	79.47%	
2	State government worker's compensation benefit cost rate per \$100 of payroll	\$0.47	\$0.44	
3	Administrative costs as percent of claim expenditures.	12%	11.31%	
4	Administrative costs per dollar amount of payroll	0.075%	0.05%	See Comment 1

Comments on performance matters related to Objective 1:

1. The Public Employee Claims Division had unfilled positions during a significant part of this time and had difficulty filling them because of salary limitations. This led to lower administrative costs for the fiscal year.

**Insurance Department
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Section III. Fiscal Summary
for the reporting period July 1, 2003 - June 30, 2004

Program 1: Administration & Regulatory Support Services Program

Commitment Item	Legislative Recommendations Budget Manual - FY04	FY04 Expenditures
Regular Salaries	\$ 2,194,403.00	\$ 2,000,582.15
Extra Help	\$ 140,000.00	\$ 105,217.50
Personal Services Matching	\$ 560,179.00	\$ 510,085.62
Overtime	\$ 17,500.00	\$ 83.08
Maintenance and Operations		
Operating Expenses	\$ 2,069,605.00	\$ 1,542,519.95
Conference Fees & Travel	\$ 193,636.00	\$ 111,366.46
Professional Fees & Services	\$ 446,871.00	\$ 150,204.28
Capital Outlay	\$ 151,760.02	\$ 157,577.29
Data Processing	\$ 209,800.00	\$ 81,332.38
Grants		
Refunds/Reimbursements	\$ 11,000,000.00	\$ 8,458,605.97
Claims	\$ -	
Investments	\$ -	
Special Maintenance	\$ 50,000.00	\$ 5,589.49
Examiner Travel	\$ 190,000.00	\$ 22,434.14
Total	\$ 17,223,754.02	\$ 13,145,598.31

Funding Source	Legislative Recommendations Budget Manual - FY04	FY04 Receipts
General Revenue		
Federal Revenue		
Special Revenue	\$ 4,132,750.00	\$ 6,335,401.84
Trust Revenue		
Cash		\$ 22,434.14
Other Revenue	\$ 33,022,293.00	\$ 28,296,737.15
Total	\$ 37,155,043.00	\$ 34,654,573.13

Section III. Fiscal Summary

Program 2: Insurance Regulation & Consumer Protection Program

Commitment Item	Legislative Recommendations Budget Manual - FY04	FY04 Expenditures
Regular Salaries	\$ 3,001,452.55	\$ 2,787,311.40
Personal Services Matching	\$ 810,386.00	\$ 754,491.15
Overtime	\$ 17,500.00	\$ 978.96
Maintenance and Operations		
Operating Expenses	\$ 1,220,696.00	\$ 65,805.28
Conference Fees & Travel	\$ 12,000.00	\$ 4,575.42
Professional Fees & Services	\$ 219,218.00	\$ 285.90
Capital Outlay	\$ -	
Grants		
Contract Services	\$ 25,000.00	
Refunds/Reimbursements	\$ 150,000.00	
Claims	\$ 1,000,000.00	\$ 756,801.44
Investments**	\$ 760,637.00	
Reinsurance**	\$ 139,218.00	
Total	\$ 7,356,107.55	\$ 4,370,249.55

Funding Source	Legislative Recommendations Budget Manual - FY04	FY04 Receipts
General Revenue		
Federal Revenue	\$ 276,625.00	\$ 148,799.64
Special Revenue	\$ 4,650,250.00	\$ 4,650,250.00
Trust Revenue (Gov't Bonding Board)	\$ 2,104,855.00	\$ 60,029.31
Other Revenue	\$ 4,555,476.00	\$ 4,398,203.03
Total	\$ 11,587,206.00	\$ 9,257,281.98

** GOVERNMENTAL BONDING BOARD

Section III. Fiscal Summary
Program 3: Insurance Fraud Investigation

Commitment Item	Legislative Recommendations Budget Manual - FY04	FY04 Expenditures
Regular Salaries	\$ 690,814.00	\$ 637,195.03
Personal Services Matching	\$ 175,548.00	\$ 163,868.09
Maintenance and Operations		
Operating Expenses	\$ 217,260.00	\$ 149,367.77
Conference Fees & Travel	\$ 25,000.00	\$ 16,296.21
Professional Fees & Services	\$ 22,000.00	\$ 528.51
Capital Outlay	\$ 6,070.00	\$ 4,996.28
Data Processing	\$ 1,000.00	
Total	\$ 1,137,692.00	\$ 972,251.89

Funding Source	Legislative Recommendations Budget Manual - FY04	FY04 Receipts
General Revenue		
Federal Revenue		
Special Revenue	\$ 897,480.00	\$ 864,487.37
Trust Revenue		
Other Revenue	\$ 1,261,616.00	\$ 1,548,979.77
Total	\$ 2,159,096.00	\$ 2,413,467.14

Section III. Fiscal Summary
Program 4: Worker's Compensation for State Employees

Commitment Item	Legislative Recommendations Budget Manual - FY04	FY04 Expenditures
Regular Salaries	\$ 828,474.00	\$ 729,220.36
Personal Services Matching	\$ 226,135.00	\$ 204,331.11
Maintenance and Operations		
Operating Expenses	\$ 199,878.00	\$ 159,431.39
Conference Fees & Travel	\$ 9,700.00	\$ 4,405.00
Professional Fees & Services	\$ 1,000.00	
Capital Outlay	\$ 25,362.00	\$ 14,301.70
Data Processing	\$ 14,000.00	
Claims	\$ 11,125,000.00	\$ 9,843,332.37
Total	\$ 12,429,549.00	\$ 10,955,021.93

Funding Source	Legislative Recommendations Budget Manual - FY04	FY04 Receipts
General Revenue		
Federal Revenue		
Special Revenue	\$ 1,304,549.00	\$ 1,111,689.56
Trust Revenue		
Other Revenue	\$ 11,125,000.00	\$ 9,843,332.37
Total	\$ 12,429,549.00	\$ 10,955,021.93